



SF 456 – Wind Energy Tax Credit, Sales Tax Exemption (LSB1671SZ)
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Fiscal Note Version – As passed by the Senate

Description

Senate File 456, as passed by the Senate, relates to Iowa's wind energy production tax incentives. The Bill:

- Amends the definition of “qualified facility” for the 1.0 cent per kilowatt-hour tax credit (Chapter 476B, Code of Iowa), to include private colleges and universities, community colleges, the State Board of Regents, elementary and secondary schools, and public hospitals. The generated electricity must be for the applicant's own use and the combined size of the project must be 0.75 megawatts or greater.
- Deletes a requirement that projects approved under Chapter 476B forgo the property and sales tax benefits allowed under Sections 427B.26 and 423.3(54), Code of Iowa in order to qualify for the 1.0 cent per kilowatt-hour State income tax credit. Deletion of the requirement is retroactive to January 1, 2008.
- Reduces the total current capacity limit on projects approved under Chapter 476B from 450 megawatts to 150 megawatts.
- Increases the total current capacity limit on projects approved for the 1.5 cents per kilowatt-hour wind energy production tax credit (Chapter 476C, Code of Iowa) from 180 megawatts to 330 megawatts.
- Extends the maximum timeframe available for a project approved under Chapter 476C to become operational from the current 12 months to 24 months.

Background

The 1.0 cent per kilowatt-hour tax credit under Chapter 476B was created in Senate File 2298 (Appropriations and Miscellaneous Changes Act of 2004) and the 1.5 cents per kilowatt-hour tax credit found in Chapter 476C was created in SF 390 (Renewable Energy Tax Credits Act of 2005).

Chapter 476B is available for projects with capacity of 2 megawatts or more. Projects are required to forgo existing property and sales tax benefits (see Section 427B.26 and Section 423.3(54), Code of Iowa) in order to receive the 1.0 cent production tax credit. Owners are limited to no more than two qualified projects. The total capacity of all approved projects cannot exceed 450 megawatts. A project must be placed in service before July 1, 2012, to qualify for the income tax credit.

Chapter 476C is designed for smaller projects. Projects are not required to forgo existing property and sales tax benefits and the production tax credit is equal to 1.5 cents per kilowatt-hour. The total capacity of all approved projects cannot exceed 180 megawatts. Projects must be placed in service by January 1, 2012. The Chapter 476C program has approved projects equal to the current limit and also has a waiting list. The waiting list likely includes duplicate projects and projects that may not be currently viable.

The Utilities Board of the Department of Commerce administers both programs and the Department of Revenue administers the tax credits.

Assumptions

Chapter 476B Existing Project:

1. Under current law, the existing approved project under Chapter 476B will drop out of that program and instead utilize sales and property tax benefits not available to 476B projects. With passage of the Bill, the existing project will remain under Chapter 476B and benefit from the 1.0 cent per kilowatt-hour tax credit as well as the sales and property tax benefits.
2. The existing project's capacity is 21 megawatts and the capacity factor will equal 36.5%.
3. The project will first redeem tax credits in FY 2011.

Chapter 476B:

1. Under current law, no projects will be operational under Chapter 476B prior to the July 1, 2012 deadline, so no tax credits under that program will be earned or redeemed.
2. With passage of the Bill, an additional 100 megawatts of capacity will be operational before the deadline. This leaves 29 megawatts of the 150 megawatt capacity assumed to be unused.
3. The projects will apply for and receive sales/use tax exemptions and reduced property valuation benefits as allowed by Sections 427B.26 and 423.3(54), Code of Iowa.
4. The capacity factor will equal 36.5%.
5. The 100 megawatts will become operational in time to start redeeming State production tax credits on the following schedule: 20.0% in FY 2012, 40.0% in FY 2013, and 40.0% in FY 2014.

Chapter 476C:

1. Sufficient projects are approved and/or on a waiting list to utilize the existing 180 megawatt limit of Chapter 476C projects.
2. The Bill increases the capacity limit for Chapter 476C projects by 150 megawatts. A total of 130 megawatts of this added capacity will be operational by the January 1, 2012, deadline. This leaves 20 megawatts of the 330 megawatt capacity assumed to be unused.
3. The projects will receive sales/use tax exemptions and reduced property valuation benefits as allowed by Sections 427B.26 and 423.3(54), Code of Iowa.
4. The average capacity factor will equal 26.5%.
5. The 130 megawatts will become operational in time to start redeeming State production tax credits on the following schedule: 20.0% in FY 2012, 40.0% in FY 2013, and 40.0% in FY 2014.

Fiscal Impact

476B Existing Project Impact - Allowing the one project approved under Chapter 476B to utilize sales and property tax benefits as well as the State income tax credit for wind energy production will have a fiscal impact since it extends additional benefits to a project that will already happen. The impact on the State will be partially offset by increased local property tax.

476B New Projects Impact - Enhancing the current Chapter 476B credit to allow future projects to benefit from sales and property tax benefits as well as the State income tax credit for wind energy production has a fiscal impact as it will make tax credits that have no discernable demand under current law useable under the new law. The impact on the State will be partially offset by increased local property tax.

476C New Projects Impact - Increasing the maximum capacity eligible for Chapter 476C credits will have a fiscal impact since more tax credits will be issued than under current law. The impact on the State will be partially offset by increased local property tax revenue.

The following table shows the projected net General Fund revenue reduction associated with each of the three fiscal impact categories discussed above. The left column provides the total impact.

| | Net General Fund Revenue Reduction Due to Tax Credit Redemption In Millions of Dollars | | | |
|---------|--|-----------------------------|-------------------------|-------------------------|
| | Sum of Fiscal Impacts | 476B Existing Project | 476B New Projects | 476C New Projects |
| FY 2010 | 0.0 | 0.0 | 0.0 | 0.0 |
| FY 2011 | 0.7 | 0.7 | 0.0 | 0.0 |
| FY 2012 | 2.2 | 0.7 | 0.6 | 0.9 |
| FY 2013 | 5.3 | 0.7 | 1.9 | 2.7 |
| FY 2014 | 8.4 | 0.7 | 3.2 | 4.5 |
| FY 2015 | 8.4 | 0.7 | 3.2 | 4.5 |
| FY 2016 | 8.4 | 0.7 | 3.2 | 4.5 |
| FY 2017 | 8.4 | 0.7 | 3.2 | 4.5 |
| FY 2018 | 8.4 | 0.7 | 3.2 | 4.5 |
| FY 2019 | 8.4 | 0.7 | 3.2 | 4.5 |
| FY 2020 | 8.4 | 0.7 | 3.2 | 4.5 |
| FY 2021 | 7.7 | 0.0 | 3.2 | 4.5 |
| FY 2022 | 6.2 | 0.0 | 2.6 | 3.6 |
| FY 2023 | 3.1 | 0.0 | 1.3 | 1.8 |
| | <u>\$84.0</u> | <u>\$6.7</u> | <u>\$32.0</u> | <u>\$45.3</u> |

Over the course of 20 years, the new projects (projects that will not exist without passage of the Bill) will pay a total of \$19.3 million in property taxes. Of that amount, \$3.9 million will represent savings to the State General Fund School Aid appropriation and \$15.4 million represents additional local property tax revenue.

The Iowa Utilities Board administers Chapters 476B and 476C. If the volume of wind production tax credit applications increases more staff time will need to be devoted to the program. The wind energy production tax credit efforts of the Utilities Board are currently financed through assessments charged to energy utilities.

Sources

Legislative Services Agency Analysis
Iowa Utilities Board
Iowa Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to [Section 2.56, Code of Iowa](#). Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.

